

5 May 2022

Property | REITS

## Ascendas REIT (AREIT SP)

**A Stable Quarter; Stay BUY**

**Buy** (Maintained)

Target Price (Return): SGD3.60 (27.7%)  
 Price (Market Cap): SGD2.82 (USD8,559m)  
 ESG score: 3.33 (out of 4)  
 Avg Daily Turnover (SGD/USD) 32.2m/23.5m

- **Maintain BUY and SGD3.60 TP, 28% upside with c.6% yield.** Ascendas REIT posted a stable set of operational numbers for 1Q22. Overall, the industrial segment's outlook remains relatively resilient across its markets, despite rising global uncertainties and inflationary pressures. We attribute the share price underperformance mainly to investors switching to growth/reopening plays (office/hospitality REITs). However, we believe AREIT's well-diversified and resilient industrial portfolio, with redevelopment potential and a solid 6% yield profile, warrants a relook.
- **Healthy 1Q22 positive rent reversion of +4.6%** (FY21: +4.5%) with all segments and markets leased during the quarter seeing rent growth – Australia (+16.5%), US (+14%), and Singapore (+3.9%). Portfolio occupancy dipped slightly by 0.6ppts to 92.6%, mainly due to non-renewal of two leases in Australia, while occupancy at the UK, Singapore, and US remained relatively stable. The redevelopment of UBIX (formerly 25 & 27 Ubi Road 4) was completed in January for a total cost of SGD38.2m with a pre-committed occupancy of 45% currently. Asset enhancements for Changi Logistics Centre and 17 Changi Business Park Central 1 are in progress, and expected to be completed by 2Q22 and 4Q22 respectively.
- **Manageable impact from rising interest rates and utilities.** Utility charges for common areas borne by the REIT account for c.8% of opex, and this is expected to rise by 50% this year from higher electricity tariffs. NPI margins are therefore expected to see a 1% squeeze, which we believe can be offset by rent growth. AREIT has also been installing solar panels in its buildings to generate electricity, and as part of its green initiatives. About eight of its 96 assets in Singapore currently have solar panels installed, with another 11 planned this year. About 79% of its debt is hedged with every 20bps rate increase resulting in a modest 0.4% impact.
- **Room to unlock value from redevelopments.** With the anticipated lifting of Singapore's Data Centre (DC) moratorium later this year, management had previously noted that it sees potential to redevelop some of its light industrial assets in north eastern Singapore into DCs. There is also medium-term potential to unlock value from the gradual redevelopment of its science park assets (c.10% of its portfolio value). Acquisition pace is likely to slow down to c. SGD1b this year, on the back of rising rates, with the focus mainly on logistics, DC, and tech campuses. Gearing is modest at 36.8%, presenting SGD1-2bn debt headroom.
- **Maintain estimates.** AREIT has the highest ESG score (3.3 out of 4.0) among industrial REITs under our coverage (based on our proprietary methodology), reflecting its strong ESG track record. As the score is three notches above our country median score, we applied a 6% premium to our intrinsic value.

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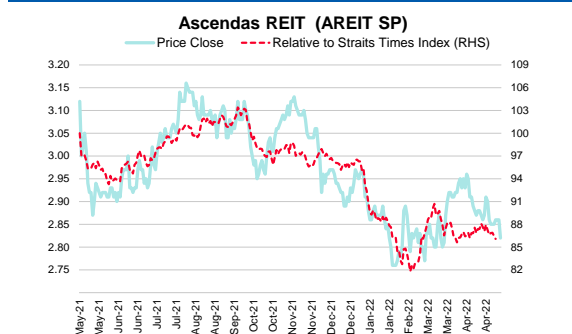
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.4)	(3.8)	1.1	(9.6)	(9.6)
Relative	(11.9)	(2.0)	0.3	(13.9)	(15.2)
52-wk Price low/high (SGD)	2.76 – 3.16				



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	1,049	1,227	1,294	1,327	1,377
Net property income (SGDm)	776	921	968	990	1,017
Reported net profit (SGDm)	457	957	748	588	601
Total distributable income (SGDm)	431	455	506	524	534
DPS (SGD)	0.15	0.15	0.16	0.16	0.17
DPS growth (%)	(5.8)	3.9	4.9	2.8	1.6
P/B (x)	1.16	1.17	1.18	1.18	1.18
Dividend Yield (%)	5.2	5.4	5.7	5.8	5.9
Return on average equity (%)	5.5	10.1	7.5	5.9	6.0
Return on average assets (%)	3.2	5.8	4.2	3.3	3.3

Source: Company data, RHB

### Overall ESG Score: 3.33 (out of 4)

#### E: EXCELLENT

Ascendas REIT has the largest number of BCA Green mark properties (35) total portfolio (43), largest number of public EV charging points (76) and largest combined solar farm (>21,000 solar panels) in Singapore by SREIT.

#### S: GOOD

Its approach to health and safety is guided by its Occupational Health and Safety Management System (OHSMS) accredited to ISO 45001. The group also has internal targets to ensure that at least 92% of vendors (attain a Level 3 in bizSAFE and above) and zero cases of validated discrimination

#### G: EXCELLENT

High level of transparency in financial announcements and earnings releases. Good corporate governance framework.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
Singapore	Recurring EPS (SGD)	0.14	0.23	0.18	0.14	0.14
Property	EPS (SGD)	0.13	0.25	0.18	0.14	0.14
<b>Ascendas REIT</b>	DPS (SGD)	0.15	0.15	0.16	0.16	0.17
AREIT SP	BVPS (SGD)	2.43	2.42	2.38	2.38	2.38
Buy	Return on average equity (%)	5.5	10.1	7.5	5.9	6.0
	Weighted avg adjusted shares (m)	3,447.21	3,896.82	4,164.28	4,204.07	4,210.25
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
DDM	Recurring P/E (x)	20.07	12.20	15.85	20.39	19.99
	P/E (x)	21.27	11.48	15.71	20.16	19.77
<b>Key drivers</b>	P/B (x)	1.2	1.2	1.2	1.2	1.2
i. Diversified industrial assets with high exposure to business parks and logistics sector,	FCF Yield (%)	5.7	5.2	9.2	9.4	9.3
ii. Largest and most liquid in S-REIT space, and	Dividend Yield (%)	5.2	5.4	5.7	5.8	5.9
iii. Strong and capable sponsor.	EV/EBITDA (x)	- 2.25	- 2.61	- 2.65	- 2.65	- 2.62
	EV/EBIT (x)	- 2.26	- 2.61	- 2.65	- 2.65	- 2.62
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. High industrial supply and shorter land leases in Singapore;	Total turnover	1,049	1,227	1,294	1,327	1,377
ii. Tenant defaults and rental pressure;	EBITDA	702	820	862	883	908
iii. Government Policy measures impacting industrial space.	Depreciation and amortisation	(3)	(0)	0	0	0
	Operating profit	699	820	862	883	908
	Net interest	(159)	(159)	(170)	(181)	(192)
	Pre-tax profit	494	1,044	783	624	637
	Taxation	(37)	(86)	(36)	(36)	(37)
	Recurring net profit	484	901	741	581	594
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
A-REIT is a property trust constituted by a trust deed. A-REIT owns and invests in a diverse, income producing portfolio of business park (including science park), light industrial, hi-tech industrial and logistic properties in Singapore.	Change in working capital	20	(83)	153	164	137
	Cash flow from operations	729	727	1,116	1,149	1,148
	Capex	(171)	(159)	(30)	(30)	(50)
	Cash flow from investing activities	(985)	(1,915)	(30)	(30)	(50)
	Dividends paid	(598)	(378)	(506)	(524)	(534)
	Cash flow from financing activities	479	1,277	(1,137)	(1,101)	(1,087)
	Cash at beginning of period	96	278	369	317	335
	Net change in cash	223	89	(51)	18	11
	Ending balance cash	278	369	317	335	346
	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	278	369	317	335	346
	Total investments	14,318	16,898	17,013	17,128	17,264
	Total other assets	453	376	382	387	396
	Total assets	15,123	17,730	17,788	17,929	18,087
	Short-term debt	226	901	974	774	774
	Total long-term debt	4,261	4,834	4,891	5,191	5,291
	Total liabilities	5,933	7,453	7,484	7,607	7,744
	Shareholders' equity	8,892	9,978	10,005	10,023	10,043
	Minority interests	299	299	299	299	299
	Total equity	9,191	10,277	10,304	10,322	10,342
	Net debt	4,210	5,366	5,548	5,630	5,719
	Total liabilities & equity	15,123	17,730	17,788	17,929	18,087
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	14.4	16.9	5.5	2.5	3.8
	Recurrent EPS growth (%)	(14.8)	64.5	(23.0)	(22.3)	2.0
	Operating EBITDA margin (%)	66.9	66.9	66.6	66.5	66.0
	Net profit margin (%)	43.6	78.0	57.8	44.3	43.6
	Dividend payout ratio (%)	117.8	65.8	90.0	117.8	117.3
	Capex/sales (%)	16.3	13.0	2.3	2.3	3.6
	Interest cover (x)	4.38	5.16	5.07	4.89	4.72

Source: Company data, RHB

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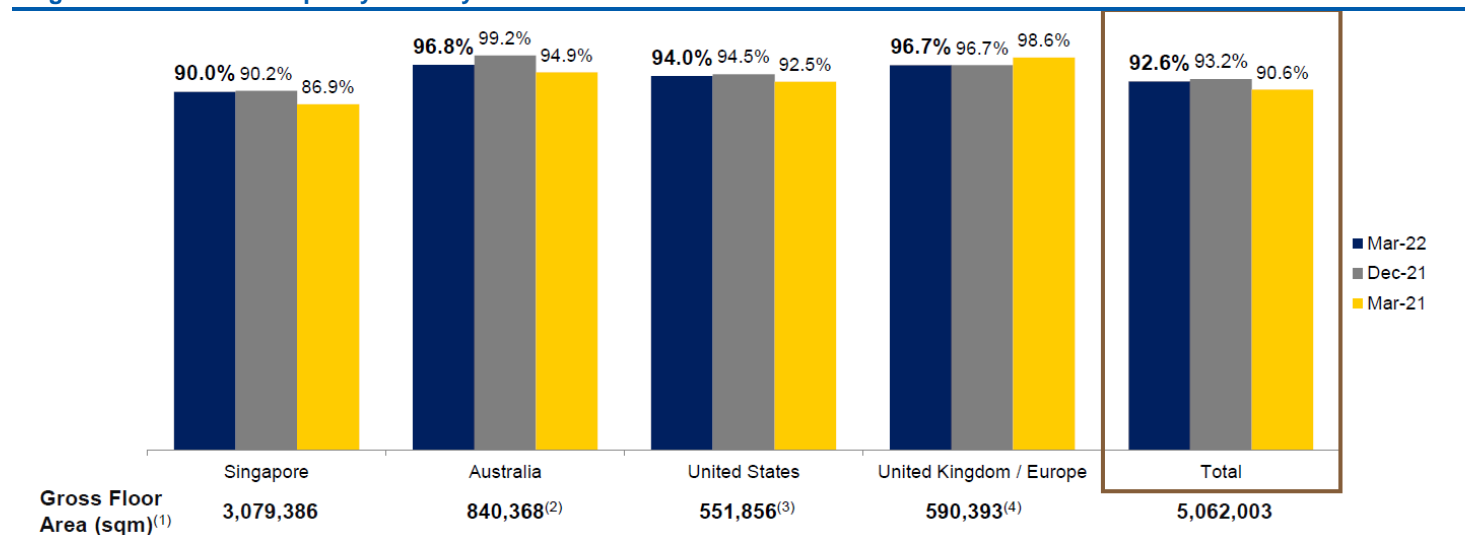
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Figure 1: AREIT's dividend discount model (DDM) valuation

DDM	FY22F	FY23F	FY24F	FY25F	Terminal value
DPU (SGD cents)	16.0	16.5	17.0	17.5	362.3
Fair value (SGD)	3.40				
ESG Premium/(discount)	0.20				
<b>TP (SGD)</b>	<b>3.60</b>				
Current price (SGD)	2.82				
Price upside (%)	27.7				
Distribution yield (%)	5.7				
Total returns (%)	33.4				
<b>Assumptions:</b>					
Risk-free rate (%)	2.8				
Beta	0.7				
Cost of equity (%)	6.4				
Terminal growth (%)	1.5				

Source: RHB

Figure 2: Portfolio occupancy trend by markets



Source: AREIT

Figure 3: Continued positive rental reversion across segments and markets

% Change in Renewal Rates for Multi-tenant Buildings <sup>(1)</sup>	1Q FY2022	4Q FY2021	1Q FY2021
<b>Singapore</b>	<b>3.9%</b>	<b>2.3%</b>	<b>2.9%</b>
Business Space <sup>(2)</sup> and Life Sciences <sup>(3)</sup>	3.6%	2.2%	2.8%
Logistics <sup>(4)</sup>	1.5%	3.1%	5.6%
Industrial <sup>(5)</sup> and Data Centres	4.4%	1.8%	-0.3%
<b>Australia</b>	<b>16.5%</b>	<b>-(6)</b>	<b>-(6)</b>
Business Space	16.5%	-(6)	-(6)
Logistics	-(6)	-(6)	-(6)
<b>United States</b>	<b>14.0%</b>	<b>0.9%</b>	<b>6.2%</b>
Business Space	12.2%	18.9%	6.2%
Logistics	26.4%	0.0%	N.A.
<b>United Kingdom/Europe</b>	<b>-(6)</b>	<b>6.2%</b>	<b>-(6)</b>
Data Centres	-(6)	6.2%	-(6)
Logistics	-(6)	-(6)	-(6)
<b>Total Portfolio :</b>	<b>4.6%</b>	<b>2.9%</b>	<b>3.0%</b>

- (1) Percentage change of the average gross rent over the lease period of the renewed leases against the preceding average gross rent from lease start date. Takes into account renewed leases that were signed in their respective periods and average gross rents are weighted by area renewed.
- (2) Business Space segment includes properties located in business & science parks in Singapore, suburban offices in Australia as well as business park and office properties in USA.
- (3) Life Science segment comprises properties with lab-ready specifications (currently 7 business park properties in Singapore).
- (4) Includes Courts Megastore and Giant Hypermarket which have been reclassified from Integrated development, amenities and retail (IDAR) segment. These properties have large warehouse spaces (under the Retail Warehouse Scheme).
- (5) Comprises high-specifications and light industrial properties (includes Aperia which has been reclassified from IDAR segment given its predominant industrial space offering).
- (6) There were no renewals signed in the period for the respective segments.

Source: AREIT

Recommendation Chart

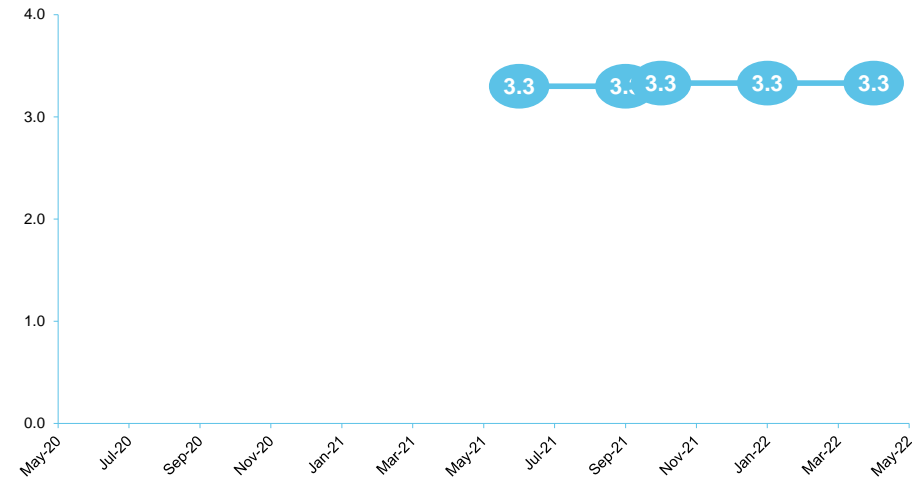


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-10-20	Buy	3.60	3.04
2021-08-02	Buy	3.50	3.12
2021-03-18	Neutral	3.20	3.07
2021-02-03	Neutral	3.15	3.16
2020-04-19	Neutral	3.00	2.89
2020-02-02	Buy	3.10	3.15
2019-10-10	Neutral	3.00	3.09
2019-03-07	Neutral	2.90	2.78
2018-10-16	Buy	2.90	2.45

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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